



# S.T.A.R.T.<sup>®</sup>

## SMART

## Understanding Hoosier S.T.A.R.T.'S Investment Options

By Auditor of State Connie Nass

As you know, the Indiana Deferred Compensation Committee ("Committee") recently made some changes to the list of investment options available to Hoosier S.T.A.R.T. Plan participants. I touched on those changes in last quarter's Auditor's Corner and you should have received a mailing providing more information. The Committee is hopeful this updated menu of investment options will remain unchanged for the foreseeable future, although it does monitor the investments constantly in an effort to help provide you with the best Plan possible. This quarter, I thought it would be useful to explain your investment options in greater detail.

### So many choices!

Hoosier S.T.A.R.T. now offers 14 separate investment options. That alone can be confusing to some people. Where do you begin? Start with understanding what each fund is supposed to be. Each fund is a different type of investment, with a manager or managers who select investments based upon a specific strategy. Those strategies may seek stocks considered to be "growth stocks," believed to have above-average profitability and earnings prospects for the long term. They may seek "value stocks," believed to be undervalued and expected to have near-term earnings rebound to realize their potential for growth. Other strategies seek stocks in either category under a "broad" or "blended" strategy.

Each fund's strategy may also focus on what are called large-, mid- or small-capitalization companies, as measured by the total dollar value of all outstanding shares of stock. Some of the funds focus on international investing. One is designed to track the S&P 500<sup>®</sup> Index, investing in larger companies like GE, Johnson & Johnson and Wal-Mart. Another uses certain social and environmental factors to help determine which stocks it buys. A fixed income/bond fund and the Indiana Stable Value Fund round out the available options. The complete list of investment options is available at [www.hoosierstart.com](http://www.hoosierstart.com).<sup>1</sup>

### Which funds are right for you?

Once you understand the types of investments available, you need to decide which options are right for you. What are your investment goals? How much risk are you willing to take to reach them? Every fund strategy entails a certain amount of risk and expected return. You should choose your investments depending upon your retirement goals, the number of years until your retirement, the level of risk you are willing to tolerate and other factors. If you do not want to go through the process of evaluating and picking the investment options you want for your account, there is another way. You can select from the Lifestyle Portfolios the Committee has established for you.

Hoosier S.T.A.R.T.'s three Lifestyle Portfolios—Conservative, Moderate and Aggressive—are pre-selected combinations of some of the investment options available in the Hoosier S.T.A.R.T. Plan. They are rebalanced every quarter in order to keep your investment diversified and consistent with the portfolio's strategy.

*Rebalancing* is the process of regularly adjusting a portfolio's holdings back to pre-established levels. For example, if an account was set up to hold four equal amounts of different investment options at 25% each, at the end of a quarter those funds might hold 20%, 23%, 27% and 30% of the account balance. Rebalancing sells some shares of the funds that have grown more quickly and buys some of the others to return the account to the four equal portions. This prevents excessive growth or losses in one fund over the short term from changing the overall long-term nature of the account.

*Diversification* is the process of spreading your investments among multiple types of investment options. Asking if you are "diversified" is like asking whether you have all of your eggs in one basket. Diversification can protect investors from any one investment option having too great an impact on an individual's account.

Choosing a Lifestyle Portfolio appropriate for the level of risk you are prepared to bear is a sound way to manage your deferred compensation account without going through the work of selecting among several different investment options and then monitoring and rebalancing your individual account.

### Help is available!

*Planning for retirement* is an important task far too many of us neglect. As you evaluate whether you are on track to retire with security, you

*Continued on back*

## Auditor's Corner

### Increasing Contribution Limits

Thanks to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), there has never been a better time to save through your Hoosier S.T.A.R.T. Plan. In 2006, the maximum amount you may defer from your salary is 100% of your includible compensation as defined by the Internal Revenue Code or \$15,000, whichever is less.

### Standard Catch-Up

If you are within three years of normal retirement age, you are allowed to "catch up" for contributions that could have been made, but were not, while you were an eligible employee. Individuals turning age 50 or older by the end of the calendar year may contribute an additional \$5,000 in 2006 to your Plan. Please contact your registered representative for more information.

# Auditor's Corner

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should consider many factors. Are you saving enough money for retirement now? If not now, when? Is your approach well-balanced? Are the funds you are now saving diversified?

Through the Hoosier S.T.A.R.T. Web site, you may access one-page fund overviews, available online prospectuses, ticker symbols and performance data on all Hoosier S.T.A.R.T. investment options. The one-page overview explains the fund's investment objective, asset allocation and diversification among different industries or areas of the economy, and it identifies the ten largest holdings within the fund. It also ranks the fund on a risk/return meter, identifies the annual fund operating expenses that will be assessed against your holdings in the fund, describes the type of investor likely to select the fund, and provides the Standard & Poor's style description for the fund.

This is a lot of information and there is no one "right" answer for anyone. Hoosier S.T.A.R.T. has local representatives available to meet with you and your co-workers. You can get their contact information through the Hoosier S.T.A.R.T. Web site. Simply go to **www.hoosierstart.com** and click on "Local Staff."<sup>1</sup> These people work for you. They receive no commission for steering you toward any particular investment option. I hope you will get to know them and rely upon them to help you Save Today and Retire Tomorrow!

*Please consider the investment objectives, risks, fees and expenses carefully before investing. For this and other important information you may obtain prospectuses for mutual funds, any applicable annuity contract and the annuity's underlying funds and/or disclosure documents from your registered representative. Read them carefully before investing.*

1 Access to the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

## Dollar-Cost Averaging and Volatility

### Investing steadily helps smooth out market bumps.

When you invest a fixed amount of money at regular intervals regardless of whether the market is up or down, it's called dollar-cost averaging.<sup>2</sup> And it's what you do when you make your monthly contribution to your retirement savings Plan.

### More Shares for Less Money

A fixed amount of money buys more shares when prices are low and fewer shares when prices are high. As a result, your average cost per share will be less than the overall average price during any given period. Say you contribute \$100 monthly. You buy 10 shares in one month when the share price is \$10, and 6.66 shares the next month when the share price is \$15, so your \$200 bought 16.66 shares at an average cost per share of \$12. The overall average is \$12.50.

### Managing Risk

Following a sudden drop back to \$10 per share, your 16.66 shares would be worth \$166.60—a \$33.40 loss on your total \$200 investment. Still, if you'd invested the entire \$200 when the price was \$15, you'd have bought only 13.33 shares. At the price drop, your total investment would be worth \$133.30—a \$66.70 loss. For all these reasons, dollar-cost averaging is an important method of managing and reducing investment risk in your savings Plan portfolio.

2 Dollar-cost averaging does not assure a profit and does not protect against loss in declining markets. Investors should consider their financial ability to continue a dollar-cost averaging plan during periods of fluctuating price levels.

## Just One Little Percent

### Savings opportunities grow with increased contributions.

An increase of one percentage point in the amount of your salary that you contribute to your retirement savings Plan may make a hefty difference over the long term. Take the hypothetical example of Sarah, age 35. She contributes 6% of her \$36,785 salary to her company Plan. Her bi-weekly contribution of about \$85 grows to approximately \$215,980 in 30 years, assuming she earns a 7% annual return on her investments. Had she contributed 7%, instead—the equivalent of an additional \$14 a paycheck, she'd have ended up with \$35,996 more by age 65. If she'd boosted her contribution rate up to 8%—that's \$113 per paycheck—she'd have accumulated \$71,993 more.

### The Impact of an Increased Savings Rate Over Time

Year	6%	7%	8%
1	\$2,286	\$2,668	\$3,049
10	\$31,591	\$36,856	\$42,121
20	\$93,734	\$109,356	\$124,979
30	\$215,980	\$251,976	\$287,973

This illustration is hypothetical and does not represent the performance of any investment options. It assumes that contributions are made at the beginning of the pay period, the effective annual rate of return is 7%, and earnings are reinvested, with no withdrawals. The illustration does not reflect any charges, expenses or fees that may be associated with your Plan. The tax-deferred accumulation shown above would be reduced if these fees had been deducted. Totals do not reflect taxes to be paid upon withdrawal.

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